

FRIDAY, May 5, 1978

Ed:

Enclosed are a few (?) items I think it would be proper to evaluate in coming to a mutually agreeable method to implement a reasonable and fair situation for both parties.

I have tried to eliminate anything from the list that is already reflected in the balance sheet, or items that are presently being projected which I would expect to directly affect our cash flow in the next few months. Instead, they should be thought of as additional valuable assets that will be acquired. Most of them are a bit subjective in nature and their value will be largely colored by the eye of the beholder, but I think that each does have obvious merit for serious consideration.

My strong motivation to impress you with their value is tempered by a desire to be completely fair, so I have left most dollar values for you to fill in.

I'm sure we will find ourselves a comfortable meeting ground.

We are looking forward to seeing you on Monday.

Sincerely

A handwritten signature in black ink, appearing to read "Larry".

GREMLIN INDUSTRIES
INCENTIVE COMPENSATION PROGRAM
ELIGIBILITY REQUIREMENTS

PARTICIPATION:

1. The Executive Staff of Gremlin Industries
(Employee members)

2. A member of the Executive Staff from:

*August 1st of each year
*Hire date of the staff member
*Date of promotion to staff member

3. Incentive awards when earned will be paid on "earned base salary" of Executive Staff;

*Who completes the fiscal year and are employed on that date
*Whose employment is terminated:
 By Retirement
 By Disability
 By Death
 By Transfer to an affiliate of the Principals
*Who with the consent of the Company enters into any service or employ of U.S. Government in a condition of declared national emergency
*Who is transferred to a Non-Executive Staff position during the year

DEFINITION:

A Pre-Tax Earnings Target is established annually for the Company. This Target figure can be higher, lower, or the same as the Business Plan, depending on assumptions used.

Actual performance is divided by Target Performance to obtain a percentage. Each increment of 100% is a Performance Index of 1.0. Each Performance Index of 1.0 equals 25% of the plan participant's "earned base salary". A Performance Index of 3.0 is the highest which can be earned under any circumstance.

EXAMPLE:

1. Annual Target - \$200,000
Actual Performance - \$100,000
Performance Index = $\frac{100,000}{200,000} = 50\% = \text{PI of .5}$
PI of .5 = $25\% \times .5 = 12\text{-}1/2\% \text{ of earned base salary.}$
2. Annual Target - \$200,000
Actual Performance - \$400,000
Performance Index = $\frac{400,000}{200,000} = 200\% = \text{PI of 2.0}$
PI of 2.0 = $25\% \times 2.0 = 50\% \text{ of earned base salary}$

TECHNOLOGY - IT'S WORTH

Assume that TAITO is producing 2000 video games/mo (per TAITO)

Using SAFARI as an obvious example and comparing the TTL logic board from TAITO (248 TTL chips & 9 PROMS) and the GREMLIN microprocessor board (with video interface chip).

Use \$1.00 per TTL chip (This includes part cost, drilled and etched board, installation labor and burden, checkout and repair, amortized replacement parts, etc) and other chips at cost +50¢.

VIDEO LOGIC BOARDS

TAITO SAFARI

248 TTL chips	-	\$248.00
9 PROMS	-	<u>20.00</u>
		\$268.00

GREMLIN SAFARI

1 Z-80 micro	-	\$ 10.00
16 RAM	-	32.00
10 EPROM(Plastic)	-	55.00
1 Video Chip	-	9.00
39 TTL	-	<u>39.00</u>
		\$145.00

Difference in cost (Logic board only) = \$123.00

\$123.00 x 2,000 units/mo = \$246,000/mo or \$2,952,000 savings per year
on logic boards alone!!

The TAITO logic board consumes 30 watts of power.

The GREMLIN logic board consumes 7½ watts of power.

assume power supplies to be 50% efficient: Therefore TAITO 60 W
GREMLIN 15 W
DIFFERENCE 45 W

Current U.S. prices of power supplies are about \$1.50/watt

assume only \$1.00/watt

\$45.00 x 2000 units/mo = \$90,000/mo x 12 mo = \$1,080,000/year

IF THE ABOVE ASSUMPTIONS ARE REASONABLY CORRECT, USE OF THE GREMLIN MICROPROCESSOR APPROACH VS TAITOS TTL APPROACH YIELDS A PRELIMINARY NET SAVINGS OF OVER \$4 MILLION FOR THE FIRST YEAR ALONE NOT INCLUDING SOUND BOARDS OR THEIR POWER SUPPLIES.

CHECK LIST OF VALUE:

1. Approximate value of microprocessor technology as applied to logic boards at 2000 units/mo (see attached)
1 YEAR ONLY \$ 2,952,000.00
 2. Approximate savings in power supply cost using the above technology.
1 YEAR ONLY \$ 1,080,000.00
 3. Savings in Warranty costs, maintenance, etc.
\$ _____
 4. Use of same microprocessor boards for many games allows dramatic reduction of hardware engineering costs. Approximate Engineering savings.....(over 3 years)
\$ _____
 5. Proprietary EPROM programmer for mass programming of game EPROMS in house on an as-needed basis. Savings
\$ _____
 6. Probable license income (games) over 3 years.
\$ _____
 7. Probable license income (Patent -Blockade & associated games - Sears, Atari, Bally, G.I) over 3 years.
\$ _____
 8. Probable license income (TELEMATH) 3 years.
\$ _____
 9. Value of a functioning U.S. Distribution network.
\$ _____
 10. Value of an established manufacturing facility in the U.S. (Cost to set up equiv organization?)
\$ _____
 11. Value of existing, functioning engineering department with ability to design to electronic state-of-the-art & computer state-of-the-art. \$ _____
 12. Value of name GREMLIN & customer goodwill
\$ _____
 13. Value of custom LSI integrated circuit to prevent exact copies of your products?
\$ _____
 14. Value of microprocessor technology and other electronic technology to TAITO Brazil?
\$ _____
 15. Value of training that GREMLIN will provide to TAITO personnel from all international operations?
\$ _____

16. Savings to TAITO America in operating expense by closing Chicago office and sharing GREMLIN Facility (Rent, phones, accounting, insurance, reduction in personnel, etc.) \$ _____
17. Value of guaranteed exclusive marketing rights to GREMLIN products world-wide.
- | | |
|-------------|----------|
| Wall Games | \$ _____ |
| Video Games | \$ _____ |
| Other | \$ _____ |
18. Value of GREMLIN management experience to other (especially newly-formed) TAITO operations \$ _____
19. Value of immediate access to high-technology components and products through existing lines of communication already established by GREMLIN. (I.C.s, Micros, Floppy discs, etc) \$ _____
20. Potential value of NEW technology being engineered now by GREMLIN.
- a. X-Y monitor and X-Y computer generated graphics for games. \$ _____
 - b. High resolution color graphics generator for games & other products \$ _____
 - c. A truly programmable game with new games simply being provided on a magnetic medium and loaded into a permanently located game cabinet. \$ _____
 - d. Proprietary Xmtrs & Receivers for wall games \$ _____
 - e. "Mini-video" games to open new locations not adaptable to arcade games. \$ _____
 - f. Programmable sound for games \$ _____
- (The above items do not include many video and wall games presently being engineered using present technologies, but offer exciting new possibilities for the future)
21. Customized wall and video products for markets outside the normal coin-op area (Brewery syndicates, fast food chains, etc.) \$ _____
22. Value of products for markets in other specific disciplines (EPROM burner, Video display generators, etc.) \$ _____

State
of
California

OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF GOOD STANDING
FOREIGN CORPORATION

I, MARCH FONG EU, Secretary of State of the State of California, hereby certify:

That on the 3rd day of February, 1971,

GREMLIN INDUSTRIES, INCORPORATED,
a corporation organized and existing under the laws of the State of
DELAWARE, complied with
the requirements of California law in effect on that date for the purpose of
qualifying to transact intrastate business in this State.

I further certify that thereby the aforementioned corporation became entitled
to transact intrastate business in the State of California and as of the date of
this certificate is so authorized and is in good corporate standing in the State of
California, subject, however, to any licensing requirements otherwise imposed
by the laws of this State.

IN WITNESS WHEREOF, I execute
this certificate and affix the Great
Seal of the State of California this
16th day of September, 1977

March Fong Eu

Secretary of State



GREMLIN INDUSTRIES, INC.

A Corporation located at 8401 Aero Drive, San Diego, whose primary business is the manufacture and sale of proprietary products connected with coin operated amusement devices.

Company is owned in the following ratios:

	<u>Shares</u>	<u>%</u>
H. Frank Fogleman	233	46.56
G. L. Hansen	103	21.50
G. A. Candelore	103	21.50
ESOT	50	10.44
	<u>479</u>	<u>100.0</u>

The Corporation is a Delaware Corporation incorporated on April 3, 1970. It is authorized to do business in the State of California. The Minute Books, Bylaws and Certificate of Incorporation are held in the office of Mr. E. Borunda, Counsel for the Corporation located at 8401 Aero Drive. The Fiscal Year ends on July 31st. There is only one class of stock, which is No-Par and there are no Stockholders Agreements thereto.

The firm of Ford, Hickman, Gibbs and Massinger, Accountants Incorporated, is the Corporation's outside accounting agency and has been since 1974.

CP&H

<u>Case No.</u>	<u>Title</u>
10660	Design for 2 person control unit
10661	Design for electronic game panel of soccer or the like
11034	Design for video game including housing
11035	Design for combined video game and table
11039	Digitally controlled electronic game

GREMLIN INDUSTRIES, INC.

U.S. PATENT PROGRAMCASES DOCKETED LIST

<u>Inventor</u>	<u>Serial No.</u>	<u>Patent No.</u>	<u>Status</u>
	<u>Filing Date</u>	<u>Issued</u>	
Lonnie C. Pogue			Not filed
H. F. Fogelman	699,620 6/25/76		Allowed; issue fee due 5/16/78
Lonnie C. Pogue	749,787 12/13/76		Allowed; issue fee due 5/16/78
Verl O. Olson	749,786 12/13/76		Allowed; issue fee due 5/16/78
Lane T. Hauck	760,470 1/18/77	4,089,524 5/16/78	

<u>EMPLOYEE NAME</u>	<u>DATE OF HIRE</u>	<u>BIRTHDATE - AGE</u>	<u>PRIOR EMPLOYMENT</u>	<u>SALARY</u>
AVAKIAN	04-05-76	1942 36	Triad-Utrad (Div. of Litton Industries)	22,500
MITCHELL	03-23-76	1944 34	Raydon Inc.	19,200
CANDELORE	04-03-79	1932 46	Harlan Labs, Inc.	50,000*
FOGLEMAN	04-03-70	1931 47	Aeromarine Electronics, Inc.	62,500*
PECORARO	06-21-76	1941 37	Spectral Dynmaics	75,000
HANSEN	04-03-70	1935 43	Harlan Labs, Inc.	50,000*
HAUCK	08-21-74	1946 32	Spectral Dynamics	32,000#
GORRIE	03-06-78	1942 36	California Instruments	26,000*

* Indicates Automobile, Expense Account and Incentive Plan also apply.

Royalty Plan applies for games manufactured under Patent 4, 089, 524